

## Message Text

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51

ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EUR-08 EB-03 NSC-05 NSCE-00 SP-02

L-01 INR-05 CIAE-00 /046 W

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R 281216Z MAY 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 1685

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BAGHDAD UNN

AMEMBASSY BEIRUT UNN

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TEHRAN 4965

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: TOP OIL EXECUTIVES SEE SHAH

1. SUMMARY. TOP EXECUTIVES OF EXXON, TEXACO, ROYAL DUTCH/SHELL AND BP HAD "ENCOURAGING AUDIENCE" WITH SHAH ON MAY 25, AT WHICH HE INDICATED UNDERSTANDING OF THEIR CONTENTION THAT PRESENT FINANCIAL ARRANGEMENTS IN GULF ARE NOT WORTH THEIR WHILE. SHAH SAID HE WOULD DELEGATE AMOUZEGAR TO NEGOTIATE BETTER DEAL FOR COMPANIES.

AMOUZEGAR, HOWEVER, INDICATED THAT WHILE HE SYMPATHIZES, HE WILL CONSULT WITH OTHER GULF PRODUCERS AND WILL NOT "LOWER PRICES UNILATERALLY." AMOUZEGAR WILL DELEGATE BULK OF NEGOTIATING TO DR. PARVIZ MINA OF NIOC AND HIS DEPARTMENT. THUS MEMBERS NOW  
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ANTICIPATE GRUELING ROUND OF BARGAINING WITH THEIR USUAL OP-

PONENTS. END SUMMARY.

2. JAMIESON AND KURGER OF EXXON AND GRANVILLE AND DECRANE OF TEXACO CALLED ON CHARGE EVENING OF MAY 25, TO REPORT ON AUDIENCE THEY, TOGETHER WITH WAGNER OF SHELL AND STEEL OF BP, HAD HAD WITH SHAH THAT MORNING. JAMIESON SAID HE AND OTHERS HAD SOUGHT AUDIENCE WITH SHAH TO TELL HIM COMPANIES CANNOT LIVE WITH PRESENT FINANCIAL ARRANGEMENTS IN GULF. AMERICAN MEMBERS HAD MADE SAME PITCH TO YAMANI, HAD TOLD HIM THEY WERE GOING TO CARRY SAME MESSAGE TO SHAH, TOLD SHAH THEY HAD SAID THE SAME TO YAMANI: ABU DHABI FORMULA DOES NOT PROVIDE SUFFICIENT

INCENTIVE FOR COMPANIES TO CONTINUE TO COMMIT RESOURCES TO OPERATIONS IN THE GULF. THEY TOLD SHAH THIS WOULD STILL BE TRUE EVEN IF HOST GOVERNMENTS WERE TO PROVIDE 100 PER CENT OF CAPITAL EXPENDITURE, THUS SOLVING COMPANIES "MOST IMMEDIATE PROBLEM OF NEGATIVE CASH FLOW.

3. COMPANIES ALSO DISCUSSED WITH SHAH SPECIFIC PROBLEMS IN IRAN; OVERPRICING OF IRANIAN CRUDE DUE EXCESSIVE SULPHUR PREMIUMS AND THE PROBLEM OF IRAN'S SMALL (1.5 PER DEGREE API) ADJUSTMENT FOR OPERATIONAL VARIATIONS IN CRUDE OIL GRAVITY. OTHER GULF NATIONS REPORTEDLY USE ADJUSTMENT FACTOR OF 3 CENTS PER DEGREE. SMALL ADJUSTMENT IN IRAN, ACCORDING MEMBERS, COSTS THEM \$2 MILLION DOLLARS PER YEAR AT KHARG ISLAND (ON CRUDE) AND \$8-10 MILLION ANNUALLY AT ABADAN. LARGER FIGURE AT ABADAN IS DUE TO NIOC'S TAKING MOSTLY LIGHT PRODUCTS FROM THE REFINERY, LEAVING MEMBERS A HEAVY (AND LOW-PRICED) AVERAGE PRODUCT BARREL, WHICH GETS ONLY SMALL DOWNWARD PRICE ADJUSTMENT.

4. SHAH, SAID JAMIESON, SHOWED CONSIDERABLE UNDERSTANDING AND SYMPATHY FOR COMPANIES' POSITION, ACCEPTED "PRINCIPLE" OF PROVIDING 100 PER CENT OF CAPITAL, AND SAID HE WOULD CHARGE MIN IN AMOUZEGAR WITH NEGOTIATING ADEQUATE SOLUTION WITH COMPANIES SHAH NOTED, HOWEVER, THAT COMPANY LIFTINGS HAD DROPPED AND MADE PITCH THE IRAN NEEDS MONEY MORE THAN ITS NEIGHBORS, IS KEY FRIEND AND ALLY OF WEST IN REGION AND SO ON. MEMBERS POINTED OUT THAT THEY HAVE MAINTAINED LIFTINGS IN IRAN AT HIGH LEVELS COMPARED TO GULF NEIGHBORS, IN SPITE OF PRICE PENALTY THEY PAY ON IRANIAN CRUDE.

5. CONSORTIUM REP VARIAN BRIEFED EMBOFF MAY 27 ON EXECUTIVES' SUBSEQUENT (MAY 26) MEETING WITH OPEC REP AMOUZEGAR. EXECUTIVES REPORTEDLY CONFIDENTIAL

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LESS ENCOURAGED AFTER THIS TALK. AMOUZEGAR BEGAN LONG MONOLOGUE WITH COMMENTS ON HIS HEALTH (POOR) AND INTERNAL POLITICAL DEVELOPMENTS, THEN PROCEEDED WITH OIL. MENTIONED HE AND COMPANIES MUST DISCUSS (A) PROFIT SQUEEZE (B) PROBLEM OF FINANCING CAPITAL EXPENDITURE (C) PRICE PREMIUMS ON IRANIAN CRUDE AND (D) ABADAN PROBLEMS. COMPANIES WERE SATISFIED SHAH HAD TOLD AMOUZEAGAR WHAT HE SAID HE WOULD TELL HIM. AMOUZEGAR MADE CLEAR, HOWEVER, THAT HE WOULD NOT NEGOTIATE

UNILATERAL PRICE CONCESSIONS HE TOLD COMPANIES HE COULD HAVE TO TALK TO KUWAIT, SAUDI ARABIA AND QATAR, AND THAT IF NECESSARY THEY WOULD ALL "FET AROUND TABLE WITH COMPNAIES," TO SEEK SOLUTIONS. (WE DO NOT KNOW MEANING OF OMISSION OF ABU DHABI) AMOUZEGAR DISCOURSED AT SOME LENGTH ON PROBLEM OF SULPHUR AND OTHER PREMIUMS AMONG OTHER THINGS MAKING CLEAR THAT HE STILL ENVIOUS OF KUWAIT'S POSITION: LOWER PRICE BUT GETTING "EXTRA" FOUR CENTS A BARREL GOVERNMENT TAKE DUE LOWER PRODUCTION COST HE ASSURED COMPANIES IRAN WANTS TO CONTINUE RELATIONSHIP WITH THEM. RELATIONSHIP, HE SAID, MIGHT BE SIMPLE PURCHASING ARRANGEMENT, BU "WE WOULD GIVE YOU COMMISSION FOR HANDLING OIL FOR US." (VARIAN SAID ON THIS POINT AMOUZEGAR TALKED IN RANGE OF 50-CENT MARGIN FOR COMPANIES IF THEY PROVIDE 40 PER CENT OF CAPITAL NEEDS, PERHAPS 18-20 CENTS PER BARREL LESS IF THEY PROVIDE NO FIANANCING.) AMOUZEGAR SAID IRAN RECOGNIZES COMPANIES "ACQUIRED RIGHTS" AND "GOOD WILL" AND DOWNSTREAM SERVICES THEY PROVIDE. AT THIS POINT OIL EXECUTIVES ATTEMPTED TO GET IN A WORD, NOTING THAT COMPANIES NOT CONCERNED JUST ABOUT VALUE OF "GOOD WILL" AND DOWNSTREAM SERVICES: THEY PROVIDE INTEGRATED SERVICE, FROM EXPLORATION AND PRODUCTION TECHNOLOGY THROUGH SUPPLY PLANNING TO THE FILLING STATION. YES, YES, AMOUZEGAR: THAT CAN BE SEPARATE CONTRACTUAL ARRANGEMENT FOR UPSTREAM TECHNICAL SERVICES WITH A FEE. (ANATHEMA FOR MOST MEMBERS, COMMENTED VARIAN: THE IDEA OF BEGOMING A SORT OF BIG BECHTEL.)

6. MEMBERS WILL SEND TEAM EARLY NEXT WEEK (PROBABLY HEADED BY SUTCLIFFE OF BP) TO BEGIN TALKS. AMOUGEGAR INDICATED HE WILL DELEGATE MOST OF NEGOTIATING TO DR. MINA AND HIS DEPARTMENT. MEMBERS ARE ANTICIPATING GRUELING ROUND OF TALKS.  
HELMS

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